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China's NPC: ambitious growth target for 2022

Key take aways

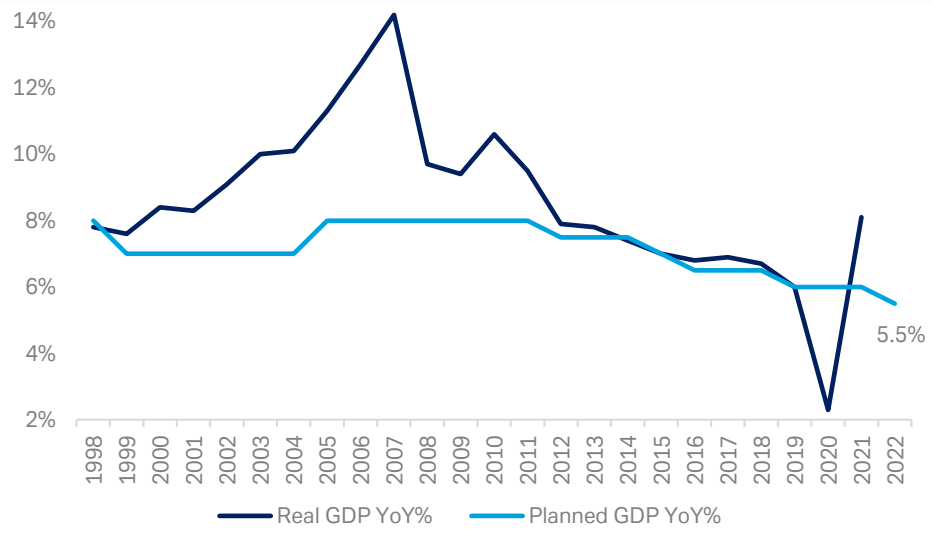
- Additional fiscal and monetary support is expected, as China chases a 5.5% 2022 GDP growth target.
- Special local government funds will increase, and one fiscal focus will be infrastructure investment.
- Stabilising investor confidence could generate upside potential for Chinese stocks in focus areas.

China concluded its National People's Congress (NPC) on March 11 and released the key economic priorities for 2022. We highlight below the key takeaways from the China's NPC this year.

01 Ambitious growth target of 5.5% this year

Chinese Premier Li delivered this year's government work report to the National People's Congress (NPC). While acknowledging a "significant increase in risks and challenges in 2022", China set its 2022 real GDP target at "around +5.5% YoY", the lowest in more than 30 years. However, given China's recent weak domestic economic development and current international uncertainties, it is still ambitious, and significantly above our own current growth forecast of 4.5%. As Premier Li put it, this year's growth target "requires hard work to achieve". Hence, further monetary and fiscal support is expected, evidenced by new policy statements such as "expand the scale of new loans" and "timely use of policy tools in reserve".

Figure 1: China achieved growth targets in most of the years



Source: Bloomberg Finance L.P., Deutsche Bank AG. Data as of March 2022.

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02 Room for more visible fiscal expansion

The government proposes a budget deficit target of 2.8% of GDP for 2022, 0.4 percentage point (pp) lower than the 3.2% deficit target in 2021. However, there are substantial under-utilised fiscal funds from last year, mainly proceeds from special local government bonds issued in Q4 2021, that can be carried over into 2022. This will, compared to 2021, almost double special local government funds in 2022 to CNY4.7tn (USD744bn). Hence, there is enough room for fiscal spending to rise – in total by CNY2tn YoY (USD 317bn).

03 Fiscal stimulus focused on infrastructure investment

Accelerating infrastructure investment is the key to shoring up growth in 2022. One focus could be on the areas of basic, digital and information infrastructure, hydropower, (renewable) energy bases and facilities, utilities, and technology sectors (e.g., semiconductors, AI and seed development). In particular, the government has highlighted infrastructure investments in 1) intercity rail in the major city clusters, 2) logistics hubs and cold-chain logistics, 3) the major renewable energy bases and 4) new information infrastructure such as 5G and data centers.

The government has also announced that total tax reductions and refunds will reach CNY2.5tn (USD396bn) this year – specifically, value-added-tax and income tax cuts for small and medium-sized enterprises (SMEs) and increasing tax deductions and refunds for SMEs in manufacturing, environment, power, transport and for corporate R&D spending. On the monetary policy side more interest rate cuts are widely anticipated. Financial institutions are being prompted to lower real lending rates in order to enhance the credit demand of corporates and households.

04 Domestic recovery remains the key

While the manufacturing sector is the focus of support from all directions, and exports remain a core requirement for protecting growth, consumption demand is to be strengthened through household income growth in line with GDP growth and by creating 11mn new jobs in 2022 (unchanged from 2021). The recent wave of Covid-19 infections and renewed lockdown measures could affect consumption severely. Therefore, more supportive measures could be implemented especially the support SMEs in the Covid-affected regions. New tax credits could be offered for young children (<3 years), online and offline consumption, sports, and green home appliances in rural areas are being encouraged. Furthermore, new-energy vehicle sales are highlighted as an area to receive continuous support.

05 More balanced policies on property sector

With China's property market still in a downturn, stabilising this still important sector will be crucial for achieving the 5.5% growth target. On the one hand, the NPC continued to highlight that "houses are for living, not for speculation". On the other hand, the NPC also said they wanted to "satisfy reasonable demand for housing". Apart from mentioning plans to set up a financial stability fund to prevent systemic risks that might emerge from the property sector, China will explore new models for housing development, including encouraging rentals along with purchases, and adopting city-specific measures to facilitate solid development in the real estate sector. Going forward, clearer policy messages can be expected.

Figure 2: Challenges in household consumption this year due to Covid-19 infections

Source: Bloomberg Finance L.P., Deutsche Bank AG. Data as of March 2022.

06 Energy security also highlighted

Against the backdrop of rising energy prices, China is determined to boost output and reserves of domestic oil, gas, and coal, which powers more than 60% of China's electricity generation plants. Coal is obviously China's answer to its new mandate of "ensuring energy supply" prompted by the electricity shortage in the period August-October 2021. China's loosened climate commitment of peaking coal consumption before 2030 provides abundant room for manoeuvre. The focus of 'green development' in the Government Work Report is more on technology advancement than cleaner fuel choices. New investments could be expected particularly in the areas of promoting the construction of more large-scale wind and solar bases, promoting energy conservation and the carbon reduction in the industries such as steel, chemicals, metals and building materials

07 More promises of stimulus amid new Covid-19 infections

After the close of NPC, there was new round of Covid-19 infections in mid and late March in China. More cities have been under periods of lockdown this time, including Shenzhen and Shanghai, which are key economic hubs in China. The economic cost of curbing Covid-19 infections has been getting higher this time, as both consumption and supply chains are affected this time. For instance, Guangdong province reported delays in product deliveries because some factories had to close for a few days amid Covid infections. Against this backdrop, China's Financial Stability Committee, chaired by Vice Premier Liu He, in a rare meeting on March 16 directly discussed the concerns over the equity markets. They discussed the importance of a stable economy and stable equity markets amid the current coronavirus infections. It was clear a signal that the government was ready to support the economy, including the equity markets, in a more aggressive way. We think the possible measures to support equity market could include instructing the state-owned asset managers (such as pension funds) to directly raise stock holdings. More visible monetary and fiscal measures could be announced in coming months.

Looking ahead, uncertainties to China's growth path remain high as spill-overs from geopolitical tensions are likely to be transmitted through persistently high energy prices and lower growth prospects for China's main trade partners. Ongoing "Zero-Covid" policy measures and new local lockdowns might also dampen the recovery of domestic demand. However, as policymakers are committed to work hard on all fronts, China's economy might gain momentum in H2 2022. If early indicators like the recent increase in the credit impulse continue to improve in the months ahead, investors' confidence could stabilise, generating upside potential for stocks of Chinese companies in focus sectors benefiting from announced policy support.

Glossary

CNY is the currency code for the Chinese yuan.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

The National People's Congress (NPC) is China's legislative assembly which holds annual sessions every spring.

SMEs are small and medium-sized enterprises.

USD is the currency code for the U.S. Dollar.

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